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RHEHNSC/NSC WASHDC  
RUCPDO/DEPT OF COMMERCE WASHDC  
RHEBAAA/DEPT OF ENERGY WASHDC  
RUEATRS/DEPT OF TREASURY WASHDC  
RULSDMK/DEPT OF TRANSPORTATION WASHDC  
RHMCSUU/FAA NATIONAL HQ WASHINGTON DC  
RUEHRC/DEPT OF AGRICULTURE WASHDC

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SIPDIS

USDOC FOR ITA/MAC/OSA/LDROKER/ASTERN/KRUDD, USPTO  
DEPT OF ENERGY FOR A/S KHARBERT, TCUTLER, CZAMUDA, RLUHAR  
DEPT PASS TO USTR MDELANEY/CLILIENTFELD/AADLER  
TREASURY FOR OFFICE OF SOUTH ASIA MKAPLAN  
TREASURY PASS TO FRB SAN FRANCISCO/TERESA CURRAN  
USDA PASS FAS/OCRA/RADLER/BEAN/FERUS

E.O. 12958: N/A

TAGS: [ECON](#) [ECPS](#) [EFIN](#) [EIND](#) [EINV](#) [ECIN](#) [EMIN](#) [ENRG](#) [IN](#)

SUBJECT: NEW DELHI WEEKLY ECON OFFICE HIGHLIGHTS FOR THE WEEK OF  
JANUARY 25 TO JANUARY 29, 2010

¶1. (U) Below is a compilation of economic highlights from Embassy  
New Delhi for the week of January 25 to January 29, 2010, including  
the following:

- India to Build More Fast Breeder Reactors
- External Commercial Borrowing Norms Relaxed For 3G Spectrum  
Auctions
- Coal Still King for India's Energy Mix
- Confusion Reigns Supreme on 3G Auction
- Debt Management Office Coming to Delhi
- Corporate Bond Market Opening Slowly

India to Build More Fast Breeder Reactors  
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¶1. (SBU) Officials at the Indira Gandhi Centre for Atomic Research  
(IGCAR) announced plans on January 26 to add two additional fast  
breeder reactors (FBR) of 500 megawatts each to their facility in  
Kalpakkam, Tamil Nadu (40 miles south of Chennai) by 2020.  
Currently, IGCAR is working on an indigenous prototype constructed  
by Bharatiya Nabhikiya Vidyut Nigam Ltd (Bhavini), which IGCAR  
officials claim is nearing completion but has yet to undergo a  
series of safety tests. IGCAR aims to have the prototype  
functioning by October 2011. IGCAR's Head of Technical Coordination  
and Public Awareness confirmed to Consulate General Chennai the  
intention to add the reactors, but noted that this was contingent  
upon the success of the prototype currently under construction.  
(Comment: The GOI built the Kalpakkam facilities, where there are  
several different types of reactors located on site, without any  
foreign partnership, and the expansion of capacity announced this  
week is similarly planned to occur without foreign partnership. End  
Comment.)

¶2. (SBU) India hopes that FBR technology will help India become more  
self-reliant as this type of reactor can use a thorium cycle to  
extract nuclear fuel. India has thorium in abundance, in contrast  
to uranium, which is scarce in India and generally must be imported.  
A former director of the Madras Atomic Power Station (MAPS) told  
Consulate General Chennai that international sanctions following the  
1998 nuclear tests limited uranium availability, bringing the MAPS's  
plant load factor down to 25 percent. He noted that the fast  
breeder technology would take India away from the uranium-based fuel  
cycle toward a plutonium-thorium cycle, making it less vulnerable to  
international pressure.

External Commercial Borrowing (ECB)  
Norms Relaxed for 3G Spectrum Auctions

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¶3. (U) On January 25, the Ministry of Finance (MoF) allowed prospective bidders for 3G spectrum auction to raise short-term rupee funds from the domestic market, which could be in turn refinanced through ECBs in 12 months time. Department of Telecom (DoT) guidelines require successful bidders to pay 25 percent of the bid amount within five days of the close of the auction and the remainder within the next 10 days. As 15 days is not an adequate amount of time for raising funds through the ECB route, the MoF has allowed bidders to raise short term rupee funds, which can in turn be refinanced through ECBs within 12 months from the date of full payment of the bid amount to the government. The MoF, however, has prohibited domestic banks from providing any guarantee to bidding companies. The new policy will improve the bidding entity's ability to raise funds from foreign markets at much lower rates and enable them to better manage and schedule payment obligations. Further, it is also likely to increase competition for 3G auctions and thus enhancing the prospects of the Government raising at least US \$760 million through this auction.

Coal Still King for India's Energy Mix

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¶4. (U) At the 3rd Asian Mining Congress in Kolkata on January 22, Minister of State for Coal Mr. Shriprakash Jaiswal and Coal India Chairman Mr. Partha S. Bhattacharya confirmed coal's primacy in India's energy mix for the coming decades, while acknowledging the increasing use of nuclear and renewable energy sources. Jaiswal also highlighted the increasing difficulty of land acquisition for mining operations, the importance of adequate rehabilitation and

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resettlement policies for those displaced by mining projects, and minimizing mining's impact on the environment. Land acquisition, whether for mining or industrial projects, is a concern in several of the states in Eastern India where agriculture, mining, and industry often have competing interests.

Confusion Reigns Supreme on 3G Auction

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¶5. (U) Considerable amount of confusion and uncertainty prevails within the Department of Telecom (DoT) regarding the timing and modality of the upcoming 3G auction. Consequently, media reports on any given day often conflict with their own accounts from previous days. In a most recent media release, Union Communications Minister ¶A. Raja announced that the 3G auctions and subsequent process will be completed by March 31, 2010. According to the Minister, the notice inviting applications (NIA) will be issued this week.

¶6. (U) The NIA is likely to include new terms for the 3G auction. Earlier reports had suggested that the first-time winners of 3G auctions would be required to purchase Universal Access Service (UAS) license priced at \$367 million, which would include the 2G start-up spectrum for which 343 applicants are already waiting. Due to potential legal action, DoT may renege on its promise to allow winning bidders to jump a two-year-old queue and get access to low-frequency airwaves ahead of the 343 waiting applications. If so, foreign operators will have no incentive to bid given that their ability to compete will diminish without the 2G spectrum.

Debt Management Office Coming to Delhi

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¶7. (U) Ministry of Finance Director T. Rabi Shankar told U.S. Treasury Attache and Econoff that the GOI's plans to create an independent debt management office (DMO) were moving forward although the GOI is taking a slow approach. Shankar said debt management, done by Treasury's Bureau of Public Debt in the U.S., is currently housed with the Reserve Bank of India (RBI). The key issue to be decided is the future relationship between an independent DMO and the RBI as the DMO will have to rely on the RBI and there must be a system in place for a real time exchange of information between the two. Shankar said the GOI is studying closely how the United States and Canada handle this relationship since both countries have strong coordination between its central bank and its equivalent of the Finance Ministry.

¶8. (U) Shankar thought it would take a minimum two years to completely set up a functioning DMO. Demand for such services is currently high due to the high fiscal deficit, leaving no room for novice mistakes. Although there were no plans to slow down the creation of the DMO, neither is there a rush to take debt management from the RBI until the deficit declines. Currently, Shankar is building up the capabilities of the DMO Middle Office, which has a staff of three, two of which are seconded from the RBI, but he hopes to add six to eight more in the next 12 months. The Middle Office currently works in parallel with the RBI on the debt issuance calendar, cash management tools, risk management, and linking systems to create a comprehensive debt database.

#### Corporate Bond Market Opening Slowly

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¶9. (U) As of March 1, the Reserve Bank of India (RBI) will allow for repurchase agreements ("repo") in corporate debt securities provided the corporate debt is double-A rated or above and has a maturity of at least one year. Most financial institutions, such as commercial banks except for rural and local area banks, primary dealers, non-banking financial corporations, mutual funds, and insurance companies will be able to participate in repo transactions although the RBI excluded foreign institutional investors as eligible participants.

¶10. (U) The move is expected to improve liquidity in the corporate bond market as corporate debt can now be used as collateral to borrow funds from the repo market. The improved liquidity also may result in slightly lower interest rates for corporations. Some restrictions such as a no rollover option and a minimum 25 percent margin may limit their use. Banks will be required to include amounts received as time and demand deposits and, therefore, subject

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to the cash reserve requirements, which determine the amount of cash a bank must have on deposit with the RBI, and the statutory liability ratio, which determines the amount of cash a bank must have on-hand.

¶11. (U) Reform of the corporate debt market to improve growth and increase liquidity has been a key objective of the financial services sector. Allowing repo transactions is one of several recommended changes in the corporate debt market that the RBI has made in the past year. Other improvements made include expanding the foreign exchange futures market to include the Euro, the Japanese Yen, and the British Pound, allowing for trading in interest rate futures, and providing a clearance and settlement mechanism. Although many more changes remain to be adopted, it is now hoped that the capital markets will expand and provide better diversification options and more efficient means to manage capital, and help the GOI meet its infrastructure goals.

¶12. (U) Visit New Delhi's Classified Website:  
<http://www.state.sgov/p/sa/newdelhi>.

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